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SUBJECT: AMLO ANNOUNCES A SUBSIDIES PROGRAM

Sensitive but unclassified, entire text

SUMMARY

1. (SBU) On May 30, Democratic Revolutionary Party (PRD) candidate Andres Manuel Lopez Obrador (AMLO) announced on national TV some details of a comprehensive subsidies program aimed at increasing Mexican families' income and their purchasing power by up to 20%. AMLO expects the plan would spur economic growth, employment and productivity by increasing income and consumption through a set of economic supports for the elderly and a reduction of energy rates. Many local analysts note that without fiscal reform, AMLO's

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proposal is not feasible. End summary.

AMLO ANNOUNCES A "NEW" ECONOMIC/SOCIAL PROGRAM

2. (SBU) On May 30, six days before the last debate, AMLO announced an economic-social program aimed at increasing Mexican families' income and their purchasing power. In a two-minute message on national television networks, the PRD candidate promised to increase income and purchasing power by an average of 20% for all Mexicans earning less than MP 9,000 (USD 790) per month. AMLO's plan, which he proposes implementing immediately upon taking office, includes lower energy rates and other economic supports. A day after its announcement, AMLO's economic advisor Rogelio Ramirez de la O held a press conference to explain the proposal in more detail. The announcement also provided some new, albeit limited, specificity to a proposal that has been a fundamental piece of his campaign - a promise to cut government expenditures by 1% of GDP in order to increase social spending.

ECONOMIC IMPACT ON FAMILY INCOME

3. (SBU) Ramirez de la O explained that AMLO's plan to reduce energy fees and expand the economic support system for the elderly would have a positive impact on the income of 18 million families. AMLO's economic team calculated the impact this comprehensive subsidy program would have on families' income as a function of their monthly earning:

- For families with a MP 2,500 (USD 219) monthly income, the impact would be up to 23%
- For families with a MP 5,000 (USD 438) monthly income, the impact would be up to 17%
- For families with a MP 9,000 (USD 790) monthly income, the impact would be up to 14%

Ramirez de la O calculates that the average impact of AMLO's social programs would be a 20% increase in income. He added that the promised reduction in electricity fees would have a cascading effect on other prices, which would benefit all consumers.

PROJECTED COST OF THE SOCIAL PROGRAM

4. (SBU) This comprehensive subsidy program would represent

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MP 100 billion (USD 8.7 billion) more in higher income for families. The total fiscal cost would be MP 80 billion (USD 7 billion) distributed as follows: MP 10 billion for the reduction of electricity fees, both for individuals and businesses; MP 15 billion for the reduction of gasoline prices; MP 35 billion for the economic support program for elderly; and MP 20 billion for free school materials. The other MP 20 billion (USD 1.7 billion) would be obtained through the reduction of other prices as a result of the lower energy rates. According to Ramirez's projections, the AMLO administration would obtain the needed resources through rigorous budget management and a change in the government's spending culture.

----- INFEASIBLE PROPOSAL WITHOUT FISCAL REFORM -----

5. (SBU) Many local analysts agree that AMLO's proposal to increase spending on subsidies is not feasible without improving tax collection. The social program proposed by the PRD candidate represents 1% of GDP, which in addition to the current tax evasion rate of 1.3% of GDP, would increase the fiscal deficit and public debt. Ramirez de la O explained that this would not be the case because the AMLO administration would cut some budget items. However, AMLO's proposed reduction in government officials' salaries and other administrative costs to offset the cost of the subsidies could prove difficult in practice. Moreover, a reduction of prices in basic services would create distortions to real costs. According to Ramirez de la O, the PRD's subsidies program would translate into higher income, triggering more consumption. But, some analysts worry that higher consumption would create inflationary pressures. The inflationary problem could be mitigated if the central bank's autonomy to manage inflation by manipulating the corto is respected. However, on several occasions AMLO has said that the Bank of Mexico's main objective should not only be controlling inflation, but promoting economic growth and employment.

6. (SBU) Throughout the campaign, critics have charged that AMLO disregards economic fundamentals. Ramirez de la O explains that AMLO's government would spend MP 35 billion in the economic support program for the elderly. Currently, there are approximately 5.15 million citizens over 65 years-old. In order to give the elderly a monthly allowance of MP 650, AMLO would have to budget MP 40 billion in addition to the costs for administering the program; bringing the total estimate for the first year to MP 60 billion.

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Given that Mexico's population over 65 years is growing at an annual rate of 4%, revenues would have to grow very quickly to sustain the program.

COMMENT

7. (SBU) AMLO's announcement of his subsidies program at the end of May could be his last official economic proposal before the elections. In advance of the June 6 debate, it was an effective publicity strategy and may have regained support he lost after publicly calling President Fox a "pelele," or weakling. Most polls place AMLO at least 2 points ahead of Felipe Calderon from the National Action Party (PAN). Only two weeks before July 2, both front-runner candidates are more likely to focus more on accusations and attempts to discredit their opponent, than proposing any more new proposals.

8. (SBU) Ramirez de la O acknowledged that similar social programs have existed for years. Former PRI president Carlos Salinas de Gortari called his program "Solidaridad", the ruling party PAN re-named it "Oportunidades", and all have made good use of the programs during the campaign. Nonetheless, AMLO's failure to provide more details on how the cost of this program would be offset, and his inflated expectations of a MP 100 billion budget savings have raised concerns among some analysts. End comment.

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